Notes to the financial statements

NOTE 1.
Introduction

Banco Millennium Atlântico, S.A., which also uses the brand ATLANTICO (hereinafter referred to as "Banco" or "ATLANTICO"), was incorporated by Public Deed on 31 August 2006. Through communication of Angola Central Bank (hereinafter also referred to as "BNA") dated 6 November 2006, ATLANTICO was authorized and definitively registered as ATLANTICO, and started its business activity on 17 November 2006. ATLANTICO operates and has its head office in Angola, at Rua do Centro de Convenções de Talatona, Via S8, GU05B, Edifício ATLANTICO, Bloco 7/8, Bairro Talatona, Distrito Urbano da Samba, Luanda.

The Bank is dedicated to obtaining resources from third-parties in the form of deposits or other, which applies, together with its own resources, in the granting of loans, in deposits at BNA, in investments in credit institutions, in the acquisition of securities and other assets, for which it is duly authorized. The Bank also provides other bank services and performs various types of transactions in foreign currency through a network, as at 31 December 2018, of 109 branches and 27 customer service centers (31 December 2017: 111 branches and 28 customer service centers).

Regarding the shareholder structure, as detailed in note 20, the Bank is owned mainly by private Angolan shareholders.

In May 2016, the former Banco Privado Atlântico entered into a merger by incorporation with Banco Millennium Angola, creating Banco Millennium Atlântico. For accounting purposes, the merger produced effects on 1 January 2016.

NOTE 2.
Accounting policies

2.1. Basis of presentation

In accordance with the provisions of Notice No. 6/2016 of 22 June, from Angola Central Bank, the financial statements of Banco Millennium Atlântico, S.A., (Bank or ATLANTICO) are prepared in accordance with the International Financial Reporting Standards ("IFRS").

IFRS include accounting standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and their predecessor bodies.

Angola Central Bank ("BNA") expressed an interpretation referring that not all the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies ("IAS 29") have been fulfilled in order for the Angolan economy to be considered hyperinflationary in the period ended 31 December 2018, and, accordingly, the Board of Directors of the Bank decided not to apply the provisions of that Standard to its financial statements as of that date.

The individual financial statements of Banco Millennium Atlântico, S.A, now presented, relate to the period ended as at 31 December 2018.

The accounting policies presented in this note were applied consistently with those used in the financial statements as of 31 December 2017, except for the changes resulting from the adoption of IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers. IFRS 9 has replaced IAS 39 Financial instruments – Recognition and Measurement and provides new requirements in accounting for financial instruments with significant changes specifically regarding impairment requirements. The requirements presented by IFRS 9 are generally applied retrospectively by adjusting the opening balance sheet to the date of initial application.

ATLANTICO decided for the exception that allows that comparative information from prior periods may not be restated, if related to changes of classification and measurement (including impairment). Differences arising in assets and liabilities balance sheet amounts, resulting from IFRS 9 adoption, were recognised in Other reserves and Retained Earnings, as at 1 January 2018, as described in note 21.

The financial statements are expressed in thousands of kwanzas, rounded to the nearest thousand. These were prepared in accordance with the historical cost principle, with the exception of assets and liabilities recorded at fair value, namely financial assets at fair value through other comprehensive income and financial assets at fair value through profit and loss.

The preparation of financial statements in accordance with IFRS requires the Bank to make judgments and estimates and to use assumptions that affect the application of accounting policies and the amounts of income, expenses, assets and liabilities. Changes in such assumptions or differences between them and reality may have an impact on current estimates and judgments. Areas that involve a higher level of judgment or complexity, or where assumptions and significant estimates are used in the preparation of the financial statements are analysed in Note 3.

The Bank's financial statements for the period ended on 31 December 2018 were approved by the Board of Directors on 10 April 2019.

2.2. Comparability of the information

The Bank adopted the standards whose application is mandatory for periods beginning on or after 1 January 2018. The accounting policies were applied consistently and are consistent with those used in the prior year financial statements, except for the changes resulting from the adoption of the following standards as at 1 January 2018: IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers. IFRS 9 provides new requirements regarding (i) classification and measurement of financial assets and liabilities, (ii) measurement and recognition of impairment of financial assets by applying the expected credit losses model and (iii) hedge accounting.

The requirements presented by IAS/IFRS are generally applied retrospectively, by adjusting the opening balance sheet to the date of initial application (1 January 2018). The impacts arising from the implementation of IFRS 9 are presented in note 36. No significant impacts related to the adoption of IFRS 15 were found.

2.3. Transactions in foreign currency

Transactions in foreign currency are translated into the functional currency (kwanza) at the exchange rate published on the date of the transaction. Monetary assets and liabilities expressed in foreign currency are converted into the functional currency at the exchange rate published at the balance sheet date. Foreign exchange differences resulting from the conversion are recognised in the income statement. Non-monetary assets and liabilities expressed in foreign currency and recorded at historical cost are converted to the functional currency at the exchange rate published on the date of the transaction. Non-monetary assets and liabilities recorded at fair value are translated into the functional currency at the exchange rate published on the date when the fair value is determined and recognised in the income statement, except for those recognised in available-for-sale financial assets, whose difference is recorded in equity.

The reference exchange rates of kwanza towards US dollar (USD) and euro (EUR) were the following:

Currency	Dec./18	Dec./17
AOA/USD	308.607	165.924
AOA/EUR	353.015	185.400

2.4. Loans granted and accounts receivable

Loans granted and accounts receivable are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market and are not intended to be sold in the short term. These categories include loans granted to customers, cash and cash equivalents, other loans and advances to credit institutions and other receivables that are not traded in an active market. These are recorded by the contracted amounts, when originated by the Bank, or by amounts paid, when purchased from other entities.

Loans granted and accounts receivable are initially accounted at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method and are presented in the balance sheet net of impairment losses. Interest calculated at the effective interest rate is recognised in Net interest income on a straight-line basis.

Loans granted and accounts receivable are derecognised from the balance sheet (write-offs) when (i) the contractual rights of the Bank to their respective cash flows have expired, (ii) the Bank transferred substantially all associated risks and rewards of ownership, or (iii) notwithstanding the fact that the Bank may have retained part, but not substantially all the associated risks and rewards of ownership, control over the assets was transferred.

2.5. Financial instruments

Classification, initial recognition and subsequent measurement

In accordance with IFRS 9 – "Financial instruments", financial assets can be classified into three categories with different measurement criteria:

- Financial assets measured at amortised cost;
- Financial assets measured at fair value through profit and loss; and
- Financial assets measured at fair value through other comprehensive income.

The classification of assets depends on the characteristics of the contractual cash flows and the business model related to them.

With regards to the characteristics of contractual cash flows, the criteria is to assess whether these reflect solely payments of principal and interest (SPPI).

Business model

The standard identifies two relevant business models for the Bank's activity:

- Business model whose purpose is to held the asset to collect its contractual cash flows (Hold to collect); and,
- Business model whose purpose is both to collect its contractual cash flows and the sale of financial assets (Hold to collect and sell).

A debt financial instrument that (i) is managed under a business model whose purpose is to held financial assets in the portfolio and receive all of its contractual cash flows and (ii) has contractual cash flows on specific dates corresponding to solely payments of principal and interest on the outstanding principal – should be measured at amortised cost, unless it is designated at fair value through profit and loss under the fair value option – "Hold to collect".

A debt financial instrument that (i) is managed under a business model whose purpose is both to collect its contractual cash flows and the sale of financial assets and (ii) contains contractual clauses that give rise to cash flows corresponding to solely payments of principal and interest on the outstanding capital – should be measured at fair value through other comprehensive income ("FVTOCI"), unless it is designated at fair value through profit and loss under the fair value option – "Hold to collect and sale".

All other debt financial instruments should be measured at fair value through profit and loss ("FVPL").

The Bank assessed its business models based on a wide set of indicators, including its business plan and current risk management policies.

The Bank conducted an assessment of the business model in which the financial instrument is held, at a portfolio level, as this approach reflects the best way in which assets are managed and how the information is made available to management bodies. The information considered in this assessment includes:

- policies and goals established for the portfolio and the practical operability of these policies, including how the management strategy focuses on receiving contractual interest, keeping a certain interest rate profile, adjusting the lifetime of financial assets to the lifetime of liabilities that sponsor these assets or generating cash flows through the sale of the assets;
- how the portfolio's performance is assessed and reported to the Bank's management bodies;
- assessing the risks that affect the performance of the business model (and of the financial assets held under this business model) and how these risks are managed;
- the remuneration of business managers – e.g. to what extent the compensation depends on the fair value of assets under management or contractual cash flows received; and
- frequency, volume and periodicity of sales in previous periods, the reasons for such sales and the expectations about future sales. However, sales information should not be considered separately, but as part of an overall assessment of how the Bank sets goals for managing financial assets and how cash flows are obtained.

Assess if contractual cash flows correspond solely to payments of principal and interest (SPPI)

For the purpose of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as the compensation for the time value of money, the credit risk associated with the outstanding amount over a given period of time and for other risks and costs associated to the activity (e.g. liquidity risk and administrative costs), as well as a mark-up rate.

In the assessment of financial instruments in which contractual cash flows relate exclusively to the payments of principal and interest, the Bank considered the original contractual terms of the instrument. This assessment included the analysis of existing situations in which the contractual terms can change the periodicity and the amount of cash flows which fail to comply with the SPPI condition. In the assessment process, the Bank considered:

- contingent events that may change the periodicity and amount of cash flows;
- characteristics resulting in leverage;
- prepayment and extension of maturity terms;
- provisions that may restrict the Bank's right to claim cash flows relating to specific assets (e.g. non-recourse loans); and
- characteristics that may change time-value compensation of money (e.g. periodic resetting interest rates.

As previously mentioned, the "Hold to collect" business model establishes quantitative thresholds based on past experience in order to evaluate the frequency and materiality of sales. The sales forecast for the financial assets classified under this business model do not exceed the thresholds set by the Bank.

With regards to the other financial instruments, namely equity instruments and derivatives, these are by definition classified at fair value through profit and loss. For equity instruments, there is an irrevocable option to designate that all fair value changes are recognised in other comprehensive income, in which case only dividends are recognised in profit and loss as long as they do not clearly represent a recovery of part of the investment cost as the gains and losses are not reclassified to profit and loss even when they are derecognised.

Reclassification

Financial assets are not reclassified after their initial recognition, except for the period after the Bank changes its business model to the management of financial assets. Financial assets are reclassified to other categories only if the business model used in their management changes. In such case, all affected financial assets are reclassified.

The reclassification is applied prospectively from the date of reclassification, and no gains, losses (including impairment losses) or previously recognised interest are restated.

Reclassification of investments in equity instruments measured at fair value through other comprehensive income or financial instruments designated at fair value through profit and loss, is not allowed.

Financial assets measured at amortised cost

The Bank measures a financial asset at amortised cost if it meets, simultaneously, the following requirements and is not recorded at FVTPL (use of the Fair Value Option):

- the financial asset is held in a business model whose main purpose is to held the asset to collect its contractual cash flows (HTC – Held to collect); and
- its contractual cash flows occur on specific dates and correspond solely to payments of principal and interest on the SPPI (Solely Payments of Principal and Interest).

These instruments are initially recorded at fair value and subsequently valued at amortised cost, based on the effective interest rate method and are subject to impairment tests.

Included in this category are debt securities, loans and advances to customers and other loans and advances to credit institutions and other receivables.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity and debt instruments that are recorded at fair value at the time of their initial recognition. Gains and losses on subsequent fair value variation are recorded in a specific equity caption referred to as "Accumulated comprehensive income reserve" until its sale where they are reclassified to profit and loss for the period, except for equity instruments that are reclassified to retained earnings.

Interest is calculated using the effective interest rate method and recorded in the income statement under "Interest and similar income".

Income from variable income securities is recognised in the income statement under "Income from equity instruments (Dividends)" at the date these are allocated. According to this criteria, prepaid dividends are recorded as income for the period in which its distribution is approved.

Financial assets and liabilities at fair value through profit and loss

All financial assets that are not measured in accordance with the methods described above are measured at fair value through profit and loss. In addition, at initial recognition, the Bank may irrevocably classify a financial asset, which otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income and at fair value through profit and loss, if the classification significantly eliminates the accounting mismatch that would otherwise exist (Fair Value Option).

Securities acquired for the purpose of realising gains from short-term fluctuations in market prices fall within this category. Also included in this category are financial derivative instruments, excluding those that meet hedge accounting requirements.

Gains and losses generated by the subsequent valuation recorded in the income statement, under "Gains / (losses) arising from financial assets and liabilities measured at fair value through profit and loss". Interest is reflected under the caption "Interest and similar income".

Debt instruments whose contractual cash flow characteristics do not comply with the SPPI criteria and that would otherwise be measured at amortised cost or at fair value through other comprehensive income are mandatorily measured at fair value through profit and loss.

Financial assets held for trading include variable income securities in active markets acquired for the purpose of being traded in the short term. Trading derivatives with net value receivable (positive fair value) and options purchased are included in the financial assets held for trading. Trading derivatives with a net amount payable (negative fair value) and options sold are included in the financial liabilities held for trading.

Financial assets and liabilities held for trading and other financial assets at fair value through profit and loss are initially recognised at fair value. Gains and losses arising from the subsequent fair value variation are recognised in the income statement.

Derecognition

Assets are derecognised when (i) the contractual rights of the Bank to their respective cash flows have expired, (ii) the Bank transferred substantially all associated risks and rewards of ownership, or (iii) notwithstanding the fact that the Bank may have retained part, but not substantially all the associated risks and rewards of ownership, control over the assets was transferred.

Sale transactions with repurchase agreement

Securities sold under repurchase agreements are held in the portfolio where they were originally recorded. The funds received are recorded as liabilities, on the settlement date, and the interest payable is accrued.

IAS 39

Until 1January 2018, financial assets were recorded on the date of acquisition, at their fair value, plus costs directly attributable to the transaction. Upon initial recognition, these assets were classified in one of the following categories as defined in IAS 39 – Financial Instruments: Recognition and Measurement:

Other loans and advances to credit institutions, loans and advances to customers, other amounts receivable

This category of financial assets included, mainly, loans and advances to customers and other loans and advances to credit institutions.

Loans and advances to customers include loans granted to customers and other loans with the purpose of not being sold in the short term and are initially recorded at their contracted amount.

Loans and other receivables were subsequently recorded at amortised cost net of impairment and were subject to periodic impairment analysis.

The commissions and external costs attributable to the contracting of operations underlying the assets included in this category as well as interests on loans granted were accrued over the loans maturity period, according to the effective interest rate method and are recognised irrespective of the moment at which they are paid or received.

Available-for-sale financial assets (IAS 39)

This caption included:

- Fixed income securities that have not been classified as a trading portfolio or as a credit portfolio;
- Available-for-sale equity securities; and
- Shareholder loans and supplementary capital contributions/loans in available-for-sale financial assets.

Assets classified as available-for-sale were measured at fair value, except for equity instruments not quoted in an active market and whose fair value cannot be reliably measured or estimated and therefore were recorded at acquisition cost, net of impairment. Additionally, in the absence of market prices for commercial paper operations, these were recorded at amortised cost.

Gains and losses arising from changes in the fair value of available-for-sale financial assets were recognised directly in equity under Fair value revaluation reserves. At the time of sale, or if impairment is found, the accumulated changes in fair value were transferred to profit and loss for the period.

Interest accrued on bonds and other fixed income securities and the differences between their acquisition cost and nominal value (premium or discount) were recorded in the income statement, using the effective interest rate method.

Income from variable income securities (dividends in the case of shares) was recorded in the income statement on the date they are allocated or received. According to this criteria, prepaid dividends were recorded as income for the period in which their distribution is approved.

IAS 39 identifies some events that considers as objective evidence of impairment of available-for-sale financial assets, namely:

- Significant financial difficulties;
- Contractual breach in terms of repayment of principal or payment of interest;
- Probability of bankruptcy; and
- Disappearance of an active market for the financial asset due to financial difficulties.

In addition to impairment signs relating to debt instruments mentioned above, the following specific signs were also considered for equity instruments:

- Significant changes with adverse impact on the technological, market, economic or legal environment in which the issuer operates indicating that the investment cost may not be fully recovered; and
- A significant or prolonged decline in the market value of the financial asset below the acquisition cost.

As at the date of preparation of the financial statements, the Company assessed the existence of situations of objective evidence of impairment that would indicate that the cost of investments might not be recoverable in the medium term, considering the market situation and the available information on the issuers.

In the event of objective evidence of impairment, the accumulated loss in the fair value revaluation reserve was removed from equity and recognised in the income statement.

Impairment losses on fixed income securities were reversed through profit and loss if there is a positive change in the fair value of the security resulting from an event occurring after the impairment determination. Impairment losses on variable income securities could not be reversed. In case of securities for which impairment has been recognised, subsequent negative changes in fair value were always recognised in the income statement.

Financial assets held to maturity (IAS 39)
This caption included non-derivative financial assets with fixed or determinable payments and defined maturities, which the Bank had the intention and capacity to hold to maturity. These investments were recorded at amortised cost, based on the effective interest rate method and are subject to impairment tests.

Impairment losses recognised in financial investments held to maturity were recorded in the income statement for the period.

If, in a subsequent period the amount of the impairment loss decreased, and that impairment could be objectively related to an event that occurred after the recognition of impairment, this was reversed against the income statement.

Financial assets held for trading and at fair value through profit and loss and financial liabilities held for trading (IAS 39)
This category included mainly securities acquired for the purpose of realising gains from short-term fluctuations in market prices fall within this category. Also included in this category are financial derivative instruments, excluding those that meet hedge accounting requirements.

Financial assets classified under this category were recorded at fair value, with gains and losses generated by the subsequent valuation recorded in the income statement, under "Gains/ (losses) arising from financial assets and liabilities measured at fair value through profit and loss". Interest is reflected under the caption "Interest and similar income".

This category included financial assets held for trading, which mainly included securities acquired for the purpose of realising gains from short-term fluctuations in market prices. This category also includes derivative financial instruments, excluding those that meet hedge accounting requirements.

Impairment
IFRS 9 introduces the concept of expected credit losses that differs significantly from the concept of losses incurred under IAS 39, thereby anticipating the recognition of credit losses in the financial statements of the institutions. Thus, when determining the ECL, macroeconomic factors are considered, whose changes impact the expected losses. IFRS 9 defines that the concept of impairment based on expected losses be applied to all financial assets other than financial assets measured at fair value through profit and loss and equity instruments measured at fair value through equity.

The Bank applies the concept of expected credit losses of IFRS 9 to financial assets at amortised cost, debt instruments measured at fair value through other comprehensive income, off-balance sheet exposures, finance leases, other amounts receivable, financial guarantees and loan commitments not recorded at fair value.

The expected loss for credit risk is an estimate weighted by the probability of the present value of the credit losses. This estimate results from the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of several future macroeconomic scenarios discounted at the interest rate of the financial instruments.

The Bank measures the expected loss on an individual or collective basis for portfolios of financial instruments that share similar risk characteristics. The measurement of the provision for losses is based on the present value of the expected cash flows of the asset using the asset's original effective interest rate, whether measured individually or collectively.

The ECL determination to be applied depends on the allocation of the contract to one of three stages. At the initial recognition stage, each contract is allocated to stage 1 (with the exception of Contracts Purchased or Originated with Objective Evidence of Loss: Purchased or Originated Credit Impaired – POCI).

For each of the subsequent reporting dates, it is necessary to perform an analysis to the variation in the default risk from that date to the expected maturity of the agreement.

Instruments that are subject to impairment calculations are divided in three stages considering its credit risk level, as follows:

Stage 1: no significant increase in credit risk since its initial recognition. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur within 12 months after the reporting date;

Stage 2: instruments in which there is a significant increase in credit risk since its initial recognition, however no objective evidence of impairment exists. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur over the expected residual life of the instrument;

Stage 3: instruments for which there is objective evidence of impairment losses as a consequence of events that resulted in losses. In this case, impairment losses will correspond to expected credit losses over the expected residual life of the instrument.

Depending on the operation's Stage classification, credit losses are estimated according to the following criteria:

- 12-month expected losses: expected loss resulting from a loss event occurring within 12 months after the calculation date and it is applied for stage 1 operations; and,
- Lifetime expected losses: expected loss obtained through the difference between the contractual cash flows and the cash flows that the entity expects to receive until the maturity of the agreement. That is, the expected loss results from all potential loss events to maturity and it is applied to stage 2 and 3 operations.

With the exception of financial assets purchased or originated with impairment (designated by POCI), impairment losses must be estimated through a provision for losses in an amount equal to:

- Expected loss on a 12-month credit risk, i.e. estimated total loss resulting from events of default of the financial instrument that may occur within 12 months after the reporting date (referred to as Stage 1);
- Expected loss on a lifetime credit risk, i.e. expected loss obtained through the difference between the contractual cash flows and the cash flows that the entity expects to receive until the maturity of the agreement, resulting from all possible events of default of the financial instrument (referred to as Stage 2 and Stage 3). A provision for the expected loss on a lifetime credit risk is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition or if the financial instrument is impaired.

IFRS 9 – "Financial instruments" fails to define a concept of default. However, the Bank has chosen to update its internal default definition by introducing a set of criteria to reflect a more forward-looking model for the recognition of expected losses on financial assets. For an operation to be classified in default, it is only necessary that one of the criteria is met. Any particular operation / customer will no longer be classified in default if it fails to comply with the respective entry criteria and after that quarantine period has been fulfilled.

Impairment requirements of IFRS 9 are complex and require management decisions, estimates and assumptions, particularly in the following areas:

- Assessment of an increase in significant risk since the moment of initial recognition; and
- Inclusion of forward-looking information on the ECL calculation, in order to provide a prospective view on expected losses.

ECL calculation

ECLs are weighted estimates of credit losses that will be determined as follows:

- Financial assets with no signs of impairment at the reporting date: the present value of the difference of all cash shortfalls (i.e. the difference between the cash flows due to the Bank under the agreement and the cash flows the Bank expects to receive);
- Financial assets with impairment signs at the reporting date: the difference between the gross book value and the present value of the estimated cash flows;
- Unused loan commitments: the present value of the difference between the resulting contractual cash flows if the commitment is fulfilled and the cash flows that the Bank expects to receive;
- Financial guarantees: the present value of expected repayments less the amounts that the Bank expects to recover.

The concept supporting the Bank's approach for the determination of impairment losses on loans subject to collective analysis is the definition of homogeneous segments that consider the quality of its assets and the characteristics of credit / customer risk. Accordingly, the Bank ensures that for the purposes of analyzing these exposures and determining the risk parameters (PD and LGD), these have similar risk characteristics. Each segment is set up based on assumptions of statistical materiality (in order to estimate its risk profile) and relevance or adequacy to the various processes related to the Bank's credit risk management.

In accordance with IFRS 9, the Bank has developed ECL lifetime for financial assets as the present value of the difference between (1) the cash flows to which the entity is entitled under the agreement, and (2) the cash flows that the entity expects to receive. For assets that are not in default, the same principle applies.

The Bank defined the 12-month ECL as the portion of ECL lifetime that represents the expected credit losses that result from default events that may occur within 12 months after the reporting date.

The current methodology in the Bank defines that, for assets in default, the lifetime ECL is obtained through the loss value given the default, depending on the elapsed time since the asset entered in default.

Significant increase in credit risk

The stage 2 rating is based on the observation of a significant increase in the credit risk level. Since the standard does not determine how to measure this significant increase, the Bank estimates it by comparing the residual Lifetime Forward-Looking PDs at the reporting date with those estimated in the agreement, for the same residual maturity.

Since the Bank does not yet have the required rating and scoring models, the stage 2 rating is made based on objective triggers with the available information.

Triggers for the significant increase in credit risk are detected through automatic processes, based on information stored in the Bank's information systems.

Inputs in ECL measurement

The main inputs used to measure ECLs on a collective basis should include the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD);
- Discount rate of cash flows (effective interest rate) (Discount Rate – DR); and
- These parameters will be achieved through internal statistical models and other relevant historical data, tailored to reflect forward-looking information.

PDs will be estimated based on a certain historical period, and will be calculated based on statistical models. These models will be based on internal data comprising both quantitative and qualitative factors. If there is a change in the risk of the counterparty or exposure, the estimate of the associated PD will also change.

The risk levels will be a highly relevant input for determining PDs associated with each exposure. The Bank will collect performance and default indicators on its credit risk exposures with analysis by types of customers and products.

LGD is the extent of the loss that is expected to occur if the exposure goes into default. The Bank estimates LGD parameters based on the historical recovery rates after counterparty defaults. LGD models consider the associated collaterals and the default time.

EAD represents the expected exposure if the exposure and / or the customer enter into defaults. The Bank will obtain EAD amounts from the counterparty's current exposure and potential changes to the current allowable amount under contractual conditions, including amortizations and prepayments. For commitments and financial guarantees, the EAD amount considers the credit conversion factor (CCF), which measures the proportion of the off-balance sheet exposure that is converted into equity exposure until the effective date, that is, the prospective potential amount that may be used in accordance with the agreement.

The discount rate to use according to the standard would be the effective interest rate of the contract. As described above, with the exception of financial assets that consider a 12-month PD once they do not present a significant increase in credit risk, the Bank will calculate the ECL amount considering the risk of default during the maximum contractual period of the contract or, in some specific situations, based on behavioral maturity.

Forward-looking information

According to this new model recommended by IFRS 9, the measurement of expected losses will also require the provision of forward-looking information, including trends and future scenarios, including macroeconomic data. In this context, estimates of expected credit impairment losses will include several macroeconomic scenarios whose probability will be assessed considering past events, the current status and future macroeconomic trends. In addition, IFRS 9 also proposes the identification of alternative scenarios for impairment calculation.

Under IFRS 9, the Bank conducted several correlation tests to incorporate forward-looking information both in its assessment of the significant risk increase and in the measurement of ECL.

A detailed analysis of available macroeconomic data was conducted to determine statistically significant relationships between them and portfolio default rates. Based on this analysis, prospective scenarios were assumed that include, besides the central scenario, best-case and worst-case scenarios. This analysis and consequent incorporation into the impairment model are carried out regularly by the Bank, including identification and testing of other macroeconomic data.

In this context, the Bank used a linear regression model to capture the impact of macroeconomic factors with a significant influence on the probability of default. This model considered three different scenarios: (i) an economic development best-case scenario; (ii) an economic growth best-case scenario; and (iii) a worst-case scenario that included an increase in inflation rates.

There are two methods for calculating impairment losses: i) individual analysis and ii) collective analysis.

The Bank measures the expected loss on an individual or collective basis for portfolios of financial instruments that share similar risk characteristics. The measurement of the provision for losses is based on the present value of the expected cash flows of the asset using the asset's original effective interest rate, whether measured individually or collectively.

Financial assets impaired

A financial asset is impaired when one or more events that have a negative impact on the estimated future cash flows of the financial asset have occurred. Financial assets impaired are referred to as Stage 3 assets. The Bank has adopted the internal definition of non-performing loans as a criteria for identifying credits under Stage 3. The internal definition of non-performing loans is covered by objective and subjective criteria and is used for the Bank's credit risk management.

Purchased or originated credit impaired (POCI)

Financial assets classified as POCI are treated differently as these are "impaired". For these assets, the Bank, upon its initial recognition under Stage 3, records the asset at the net amount of the expected loss.

In subsequent measurement, an ECL with a lifetime PD is always calculated and its changes are recorded in the income statement. The associated interest is calculated by applying the effective interest rate to the net book value of the asset.

Fair value (IFRS 13)

As mentioned above, financial assets classified under Financial assets at fair value through profit and loss and Available-for-sale financial assets are recorded at fair value.

The fair value of a financial instrument is the price at which an orderly sale transaction of an asset or transfer of a liability would be completed between market players at the balance sheet date.

The fair value of securities is determined based on the following criteria:

- Closing price at the balance sheet date, for instruments traded in active markets; and
- Market prices (bid prices) disclosed through the financial information media, namely Bloomberg.

The fair value of derivatives is determined based on the following criteria:

- Quotations obtained in active markets;
- Models incorporating valuation techniques accepted in the market, including discounted cash-flows and options valuation models.

Guarantees provided and irrevocable commitments

Liabilities for guarantees and irrevocable commitments are recorded under off-balance-sheet items at their fair value, with interest, commissions or other income being recorded in the income statement over their maturity period.

Performance guarantees are initially recognised at fair value, which is usually evidenced by the amount of commissions received over the contract period. Upon the breach of contract, the Bank has the right to revert the guarantee, and the amounts are recognised in Loans and advances to customers after the loss compensation is transferred to the collateral taker.

The fair value of financial assets held for trading and traded in active markets is their most representative bid-price, within the bid-ask range or their closing price at the balance sheet date. If a market price is not available, the fair value of the instrument is estimated based on valuation techniques, which include pricing models or discounted cash flow techniques.

When discounted cash flow techniques are used, future cash flows are estimated in accordance with management expectations and the discounted rate used corresponds to the market rate for financial instruments with similar characteristics. In pricing models, the data used corresponds to market price information.

The fair value of derivative financial instruments which are not traded on the stock market, including the credit risk component allocated to the parties involved in the transaction

("Credit Value Adjustments" and "Debit Value Adjustments"), is estimated based on the amount that would be received or paid to settle the contract on the concerned date, considering the prevailing market conditions, as well as the credit quality of the parties involved.

2.6. Equity instruments

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, regardless from its legal form, showing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments issuance are recognised in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity instruments are recognised in equity, net of transaction costs.

Income from equity instruments (dividends) are recognised when the right to receive this income is established and are deducted to equity.

2.7. Property and equipment

i. Recognition and measurement

Property and equipment are recorded at acquisition cost less accumulated depreciation and impairment losses. Costs includes expenses which are directly attributable to the acquisition of goods.

ii. Subsequent costs

Subsequent costs are recognised as a separate asset only when it is likely that future economic benefits will result for the Bank. All other repairs and maintenance expenses are recognised as costs as they are incurred following the accrual principle.

iii. Depreciation

Land is not depreciated. Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Premises	25 to 50
Equipment:	
Furniture and office supplies	8 to 10
Machinery and tools	4 to 10
IT equipment	3 to 6
Indoor installations	4 to 10
Transport material	3 to 4
Security equipment	6 to 15

Whenever there is an indication that property and equipment might be impaired, its recoverable amount is estimated and an impairment loss shall be recognised if the net value of the asset exceeds its recoverable amount (IAS 36). Impairment losses are recognised in the income statement.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

2.8. Intangible assets

Software

The costs incurred with the acquisition of software to third entities are capitalized as well as additional expenses incurred by the Bank necessary for their implementation. These costs are amortised on a straight-line basis over the estimated useful life, which normally corresponds to five years.

Research and development expenditure

Costs directly related to the development of computer applications, whose use can be expected to generate future economic benefits extending beyond one year, are recognised and recorded as intangible assets.

All other charges related to IT services are recognised as costs when incurred.

Goodwill

Goodwill recorded in the financial statements results from the difference between the values defined in the merger of Banco Millennium Angola and the amount by which assets and liabilities of that entity were recorded in the accounts. Goodwill is recognised as an asset and recorded at acquisition cost, and is not subject to amortisation.

According to IAS 36, the recoverable amount of goodwill shall be the highest between its value in use (i.e., the present value of the future cash flows expected from its use) and its fair value less costs of sale. Based on these criteria, ATLANTICO performed an evaluation that considers, among others, the following factors:

- An estimate of the future cash flows generated;
- Time value of money;
- A risk premium related with uncertainty; and
- Other factors related with the markets' financial current situation, in particular inflation and exchange rate development and interest rates growth.

This assessment is based on reasonable and supportable assumptions that represent the best estimate of the Board of Directors on the economic conditions that may affect goodwill and its extrapolation for future periods. The assumptions used for this assessment may change with the change in economic and market conditions.

The review of the assumptions used and the development of macroeconomic and market conditions may result in changes in these assumptions and, consequently, in the recoverable amount of goodwill.

For the purposes of assessing Goodwill, estimated data for the following periods were used, based on the budget and future prospects and a discount rate, which includes an appropriate risk premium to the estimated future cash flows. Based on these assumptions, the recoverable amount is higher than the balance sheet value.

2.9. Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted in the Bank's financial statements at their historical cost less any impairment losses.

Subsidiaries are entities (including investment funds and securitization vehicles) controlled by the Bank. The Bank controls an entity when it is exposed, or has rights, to the variability in returns resulting from its involvement with that entity and might set hold of them through the power it holds over its relevant activities (*de facto control*).

Associates are those entities, in which the Bank has significant influence, but not control, over the financial and operating policy decisions of the investee. It is assumed that the Bank has significant influence when it holds 20% or more of the voting rights of the investee. If the Bank holds, directly or indirectly less than 20% of the voting rights of the investee, it is presumed that the Bank does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Bank is usually demonstrated by one or more of the following:

- Representation on the Executive Board of Directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the Group and the investee;
- Interchange of the management team; and
- Provision of essential technical information.

Impairment

The recoverable amount of investments in subsidiaries and associates is reviewed whenever there is evidence of impairment. Impairment losses are determined based on the difference between the recoverable value of investments in subsidiaries or associates and their book value. Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period. The recoverable amount is determined as the highest between the value in use of the assets and the fair value less selling costs, and is calculated using valuation methodologies, supported by discounted cash flow techniques, considering market conditions, time value of money and business risks.

2.10. Non-current assets held for sale and discontinued operations

Non-current assets, groups of non-current assets held for sale (groups of assets together and related liabilities that include at least a non-current asset) and discontinued operations are classified as held for sale when there is an intention to sell the referred assets and liabilities and when the referred assets are available for immediate sale and its sale is highly probable.

The Bank also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, which are available for immediate sale and its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

The Bank also classifies as non-current assets held for sale, the investments arising from recovered loans that are measured initially by the lower of its fair value net of selling costs and the loan's carrying amount on the date that the recovery occurs or the judicial decision is formalized.

The fair value is determined based on the expected selling price estimated through periodic valuations performed by the Bank.

The subsequent accounting of these assets is determined based on the lower of the carrying amount and the corresponding fair value net of selling costs. In case of unrealized losses, these should be recognised as impairment losses against results.

2.11. Leases

The Bank classifies its leasing agreements as finance leases or operating leases according to their substance rather than its legal form. A lease is classified as a finance lease if it transfers all risks and rewards incidental to ownership of an asset to the lessee. All other leases are classified as operating leases.

At the lessee's perspective, finance lease transactions are recorded as an asset and liability at fair value of the leased asset, which is equivalent to the present value of the future lease payments. Lease rentals are a combination of the financial charge and the amortization of the capital outstanding. The financial charge is allocated to the periods during the lease term to produce a constant periodic rate of interest on the remaining liability balance for each period end.

At the lessor's perspective, assets held under finance leases are recorded in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease rentals are a combination of the financial income and amortization of the capital outstanding. Recognition of the financial result reflects a constant periodical return rate over the remaining net investment of the lessor.

2.12. Taxes

i. Income taxes

Income tax recognised in profit or loss comprises current and deferred tax effects. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly to reserves in which case it is recognised in reserves. Deferred taxes arising from the revaluation of financial assets available for sale and cash flow hedging derivatives are recognised in equity and are recognised in profit and loss in the moment the results were originated.

(i.i.) Current taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

As established by Law 19/14, which came into force on 1 January 2015, the Industrial Tax is provisionally settled in a single installment to be carried out in August, calculated by applying a rate of 2% on the amount resulting from financial intermediation, calculated in the first six months of the previous fiscal year, excluding income subject to capital gains tax, regardless of the existence of taxable income in the year.

(i.ii.) Deferred taxes

Deferred taxes are calculated under the liability method based on the balance sheet date, in respect of temporary differences between the accounting values of assets and liabilities and its tax base, using the rates of tax approved or substantially approved at the balance sheet date in each jurisdiction and which are expected to be applied when temporary differences are reversed.

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill, not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future.

Deferred taxes assets are recognised to the extent when it is probable that future taxable profits, will be available to absorb deductible temporary differences for taxation purposes (including reportable taxable losses).

The Bank, as established in IAS 12 – Income Tax, paragraph 74, compensates the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future year in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(i.iii.) Capital Gains Tax (CGT)

Presidential Legislative Decree No. 2/14 of 20 October, in force since 19 November 2014, reviewed and introduced several legislative changes to the CGT Code, following the Tax Reform project.

CGT is applied generally on income from the Bank's financial investments. The rate varies from 5% (in case of interest, amortization premiums or reimbursement and other forms of remuneration of government securities, bonds, equity securities or other similar securities issued by any company, which are admitted to trading on a regulated market and with a maturity equal or greater than three years) and 15%. Notwithstanding the above, regarding income from government securities, in accordance with the latest understanding of Tax Authorities addressed to ABANC (letter with reference number 196/DGC/AGT/2016 of 17 May 2016), only those arising from securities issued on or after 1 January 2012 are subject to this tax.

In addition, it should also be noted that according to the Tax Authorities, exchange rate revaluations of government securities issued in national currency but indexed to foreign currency, issued since 1 January 2012, should be subject to Industrial Tax until the Angola Central Bank is in a position to make the appropriate CGT withholding tax.

Moreover, under the terms of article 18 of the Industrial Tax Code, CGT itself is not deductible as an expense for the purpose of calculating taxable amount, and, on the other hand, income subject to CGT will be deducted from taxable income, in accordance with the provisions of article 47 of the Industrial Tax Code.

(i.iv.) Special contribution on Foreign Exchange Invisible Current Operations

Special Contribution on Foreign Exchange Invisible Current Operations is levied, at a 10% rate, on transfers made under service agreements of foreign technical or management assistance, regulated by the provisions of the respective Regulation, approved by Presidential Decree No. 273/11 of 27 October, as amended by Presidential Decree No. 123/13 of 28 August.

ii. Property tax

(ii.i.) Property tax

Because of the amendment introduced by Law No. 18/11, of 21 April, the exemption previously provided for in the PT Code was revoked, with PT being levied at a 0.5% rate on the book value of own properties which are intended to develop the Bank's normal business (exceeding AOA 5,000 thousand).

(ii.ii.) SISA

Pursuant to the piece of Legislation No. 230 of 18 May 1931, as well as amendments introduced by Law No. 15/92 of 3 July and Law No. 16/11 of 21 April, SISA is levied on all acts involving the perpetual or temporary transfer of ownership of any value, kind or nature, regardless name or form of the ownership title (e.g. acts that affect the transmission of improvements in rural or urban buildings, real estate transmissions through donations with pensions or transfer of real estate through donations) at a 2% rate.

iii. Other taxes

The Bank is also subject to indirect taxes, such as custom duties, stamp duty, consumption tax, and other taxes.

iv. Tax replacement

(iv.i.) Capital Gains Tax

In accordance with Presidential Legislative Decree No. 2/14, of 20 October, the Bank withholds 10% of the interest on term deposits paid to clients at the CGT rate.

(iv.ii.) Stamp Duty

According to Presidential Legislative Decree No. 3/14 of 21 October, the Bank is responsible for the settlement and delivery of Stamp Duty due by its clients in all banking operations (e.g. financing, interest charge on financing, financial services fees), and the Bank settles the tax at rates established in the Stamp Duty General Chart.

(iv.iii.) Industrial Tax

According to the provisions of Article 67 of Law No. 19/14 of 22 October, services of any kind are subject to withholding tax at a 6.5% rate.

(iv.iv.) Property Tax

Pursuant to Law No. 18/11 of 21 April, the Bank withholds PT at a 15% rate on the payment or delivery of rents related to rented properties.

2.13. Employee benefits

i. Defined-contribution plans

For defined-contribution plans, the liabilities related to the benefit attributable to the Bank's employees are recognised as an expense of the period when due. Prepaid contributions are recognised as an asset if a refund or reduction of future payments is available.

ii. Long-term employee benefits

The Bank's net liability for long-term employee benefits is the amount of future benefit that employees are expected to benefit in return for their service in the current period and in past periods. This benefit is discounted in order to determine its present value. Re-measurements are recognised in the results for the period.

iii. Benefits associated with the termination of functions

Benefits associated with the termination of functions are recognised as cost, whichever is earlier, between the time where the Bank can no longer withdraw the offer of these benefits or when the group recognizes costs associated with a restructuring. If benefits are not expected to be net benefits within 12 months, these are then discounted.

iv. Short-term employee benefits

Short-term employee benefits are recorded as a cost once the associated service has been provided. A liability is recognised for the amount expected to be settled if the Bank has a present legal or constructive obligation to pay this amount as a result of a service rendered in the past by the employee and that liability can be estimated reliably.

v. Pension fund liabilities

Law No. 07/04 of 15 October, which revoked Law No. 18/90, of 27 October, which regulates the Angolan Social Security system, foresees the attribution of retirement pensions to all Angolan workers registered at the Social Security. The value of these pensions is calculated based on a table proportional to the number of service years applied to the average monthly gross wages received in the periods immediately preceding the date on which the worker ceases to work. According to Decree No. 7/99, of 28 May, the contribution rates for this system are 8% for the employer and 3% for the workers.

By resolution of the Bank's Board of Directors, ATLANTICO is making contributions under a defined contribution plan, corresponding to a fixed percentage of 8% of the monthly pensionable salary of each employee (5% by the Bank and 3% by the employee), in order to ensure employees hired locally or their families, the entitlement to cash benefits covering old-age, disability or death pension supplements. The old-age retirement pension is awarded to employees if they are 60 years old and have at least 5 years of continuous service at the Bank. The disability benefit is awarded to employees who have 5 years of continuous service and who have been diagnosed total and permanent disability equal to 100%. In case of death, employees may appoint beneficiaries and respective percentages of the reimbursement's distribution.

On December 2017, the Bank has set up a Pension Fund to which the amounts of contributions made up to date have been transferred. As at 31 December 2016, the amounts were recorded in the caption Provisions, as referred in note 18.

vi. Variable remuneration paid to employees and directors

The Bank assigns variable remuneration to its employees and directors as a result of their performance (performance bonus). The Board of Directors and the Evaluation and Remuneration Committee establish the respective allocation criteria for each employee and director, respectively, whenever this is attributed. The variable remuneration attributed to employees and directors is recorded against income in the period to which they relate, although payable in the following year (see Note 27).

vii. Holiday allowance

General Labor Law, Law 7/15, establishes that the amount of holiday allowance payable to employees in a given year is a right they acquired in the immediately preceding year. As a result, the Bank records the amounts relating to holiday payable in the following year at the end of the year.

2.14. Provisions

Provisions are recognised when (i) the Bank has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

The measurement of provisions for loan commitments and financial guarantees is made in accordance with the impairment model implemented when adopting IFRS 9 described in Note 2.5.

The provisions measurement is based on the defined principles on IAS 37 regarding the best estimate of the expected cost, the most probable result of the actions in progress and considering the risks and uncertainties inherent to the process.

In cases where the discount effect is material, provisions corresponds to actual value of the expected future payments, discounted by a rate that considers the associated risk of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

The provisions are derecognised through their use for the obligations for which they were initially recognised or for the cases that the situations were no longer observed.

2.15. Interest income

Interest income and expense for financial instruments measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss are recognised under interest and similar income or interest and similar expense captions (Net interest income), using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related with the transaction except for assets and liabilities at fair value through profit and loss.

If a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component is not separated from the changes in the fair value and is classified under Net gains / (losses) arising from assets and liabilities at fair value through profit and loss.

2.16. Dividends from equity instruments

Dividends (income from equity instruments) are recognised in the income statement when the right to receive the dividends is attributed. Dividends are recorded under net income from financial operations, net results of other financial instruments at fair value through profit or loss or other income, depending on the classification of the underlying instrument.

2.17. Fee and commission income

Fees and commissions are recognised according to performance obligations:

- Fees and commissions which are earned as services are rendered are recognised in income over the period in which the service is being provided;
- Fees and commissions that are earned on the execution of a significant act, are recognised as income when the service is completed.

Fees and commissions that are an integral part of the effective interest rate of a financial instrument, are recognised in net interest income.

2.18. Fiduciary activities

Assets held under fiduciary activities are not recognised in the Bank's financial statements. Fees and commissions arising from this activity are recognised in the income statement in the period to which they relate.

2.19. Financial results

Financial results includes gains and losses arising from financial assets and financial liabilities at fair value through profit and loss, including embedded derivatives and dividends received associated with these portfolios.

These results also includes gains and losses arising from the sale of available for sale financial assets and investments held to maturity. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognised in this caption.

2.20. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the balance sheet date, including cash and deposits with banks.

Cash and cash equivalents exclude deposits part of mandatory reserves with the Central Banks.

2.21. Financial guarantees and commitments

Financial guarantees are contracts which force the Bank to make specific payments in order to reimburse the holder for a loss incurred as a result of a debtor's failure to comply with a payment. Commitments are firm commitments with the purpose of providing credit under predetermined conditions.

Liabilities arising from financial guarantees or commitments given to provide a loan at an interest rate below market value are initially recognised at fair value and the initial fair value is amortised over the useful life of the guarantee or commitment. Subsequently the liability is recorded at the higher of the amortised amount and the present value of any payment expected to be settled.

2.22. Earnings per share

Basic earnings per share are calculated by dividing net income attributable to the Bank's shareholders by the weighted average number of ordinary shares outstanding, excluding the average number of own shares held by the Bank.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to consider conversion of all dilutive potential ordinary shares as dilution. Contingent or potential issues are treated as dilutive when their conversion to shares decreases earnings per share.

If the result per share is changed as a result of a premium or discount issue or other event that changes the potential number of ordinary shares or changes in accounting policies, the calculation of earnings per share for all periods presented is adjusted retrospectively.